



# News Release

For Immediate Release

December 8, 2003

## MTF Forecast: Modest Revenue Gains Ahead, Structural Budget Deficit Still Looms

Based on a slow economic recovery, state tax revenues will increase at an underlying rate of slightly more than four percent in both fiscal 2004 and 2005, according to a forecast released today by the Massachusetts Taxpayers Foundation.

The forecast assumes that there will be a slowing of recent strong growth in the national economy. Should U.S. economic performance remain on its present track, state tax revenues in fiscal 2005 (but not in 2004) would be substantially higher than the Foundation's forecast.

MTF President Michael J. Widmer presented the Foundation's economic and revenue forecast to members of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance at their annual revenue hearing at the State House.

The Foundation estimates that tax revenues will total \$15.42 billion in fiscal 2004. MTF's forecast for 2004 is \$620 million higher than the \$14.8 billion tax estimate on which the 2004 budget is based. According to the forecast, the underlying tax growth of about \$660 million, or 4.4 percent, in 2004 is partially offset by the loss of 2003 one-time receipts from the state's tax amnesty program and corporate tax "loophole closing."

### MTF State Forecast Summary

(\$, billions)

	Fiscal 2003	Fiscal 2004	Fiscal 2005
Tax receipts <sup>1</sup>	\$14.96	\$15.42	\$16.09
Personal income	\$252.5	\$259.5	\$268.1
Employment (000)	3,228	3,195	3,214

<sup>1</sup> Including one cent of sales tax dedicated to the MBTA.

The state will collect \$16.09 billion of tax revenues in fiscal 2005, up \$674 million or 4.4 percent from projected 2004 taxes, according to the Foundation's forecast. MTF's estimate is \$670 million higher than the 2005 forecast released by the administration in October, an increase that will move the likely budgetary shortfall in 2005 toward the bottom of the expected \$1-2 billion range.

"While the modest revenue growth forecast by the Foundation is clearly good news for the state's finances, it is not enough to close the structural budget deficit in 2005," said Widmer. "Difficult choices still lie ahead to address a gap that has been made much worse by double-digit growth in health care costs and unavoidable increases in pension funding requirements."

Under law changes adopted in the 2004 budget, the Commonwealth's annual funding obligation for employee pensions in 2005 and beyond must be met by transfers from tax revenues that will reduce the amount available for appropriation in the budget. The necessary transfers are expected to be as much as \$700 million more than the 2004 pension appropriation.

According to the forecast, Massachusetts will trail the nation in the rate of job growth. The state will experience a slowly improving employment picture in the second half of the fiscal year and add 19,000 jobs in fiscal 2005.

Personal income taxes will rise \$177 million or 2.2 percent in 2004, reflecting in part the impact of tax collections to date. In 2005, income tax revenues will increase \$227 million or 2.8 percent. Sales taxes, which have been essentially flat through the first five months of fiscal 2004, are projected to strengthen in the coming months, producing a \$79 million or 2.1 percent overall increase for the year. For 2005, sales taxes will grow \$184 million or 4.9 percent. Corporate profits taxes are expected to rise \$149 million or 18.6 percent in 2004, with similar gains in 2005. Capital gains taxes will total \$339 million in fiscal 2004 and drop to \$266 million in 2005.

The Foundation's Massachusetts forecast is based upon the "pessimistic" alternative of the October 2003 national economic forecast from Global Insight, Inc., an economic forecasting firm. Under this scenario, national employment will fall 0.2 percent in fiscal 2004, and then climb only 1.1 percent in 2005 as businesses react cautiously to continued weak consumer demand. With the labor force growing more rapidly than jobs, the national unemployment rate will head further upward, depressing wage increases and holding down pay gains. Although interest rates and inflation will remain low, the prolonged sluggishness will dampen both the housing market and business investment. After rallying with a 12.8 percent increase in fiscal 2004, the stock market will fall back to a 2.5 percent rate of growth in 2005 amidst the disappointing economic news.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, MTF ranks among the largest and most effective organizations of its kind in the country. The Foundation has won eight prestigious national awards in as many years for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

\*\*\*\*

MASSACHUSETTS TAXPAYERS FOUNDATION  
FISCAL YEAR FORECAST SUMMARY

GLOBAL INSIGHT NATIONAL FORECAST

	<<< History   Forecast >>>					
OCTOBER 2003	2000	2001	2002	2003	2004	2005
Personal Income (billions of 1996 \$)	7,573.2	7,874.0	7,901.9	8,040.2	8,227.7	8,454.8
% change	4.4	4.0	0.4	1.8	2.3	2.8
Employment (millions)	130.6	132.3	130.9	130.2	129.9	131.4
% change	2.5	1.3	(1.0)	(0.5)	(0.2)	1.1
Unemployment Rate	4.1	4.2	5.5	5.9	6.3	6.6
CPI (% change)	2.9	3.4	1.8	2.2	1.6	1.2
PPI (% change)	4.4	5.2	(3.8)	3.3	1.7	(0.8)
Federal Discount Rate	5.1	5.2	1.8	1.6	2.0	2.4
Prime Comm Rate	8.6	8.7	5.3	4.4	3.7	3.3
Standard & Poor's 500 Index (% change)	16.4	(4.2)	(16.6)	(19.7)	12.8	2.5

	<<< History   Forecast >>>					
MTF MASS. ECONOMIC FORECAST	2000	2001	2002	2003	2004	2005
Personal Income (billions of current \$)	229.2	248.3	248.9	252.5	259.5	268.1
% change	8.7	8.3	0.2	1.4	2.8	3.3
Personal Income (billions of 1996 \$)	214.7	227.3	224.0	224.3	227.1	231.9
% change	6.9	5.9	(1.5)	0.1	1.3	2.2
Total Employment (000s)	3,276.9	3,352.0	3,280.7	3,228.2	3,194.6	3,213.6
% change	2.2	2.3	(2.1)	(1.6)	(1.0)	0.6
Unemployment Rate	2.9	2.9	4.7	5.5	6.1	6.4

	<<< History   Forecast >>>					
MTF MASS. TAX FORECAST	2000	2001	2002	2003	2004	2005
Income Tax (millions \$)	9,042	9,903	7,913	8,026	8,203	8,430
% change	12.5	9.5	(20.1)	1.4	2.2	2.8
Sales Tax	3,565	3,756	3,696	3,708	3,787	3,971
% change	9.0	5.3	(1.6)	0.3	2.1	4.9
Corporations Tax	1,131	945	587	799	948	1,098
% change	12.1	(16.4)	(37.9)	36.3	18.6	15.8
TOTAL TAXES	15,689	16,730	14,290	14,964	15,417	16,091
% change	9.8	6.6	(14.6)	4.7	3.0	4.4
TOTAL TAXES FOR BUDGET*	15,689	16,075	13,626	14,279	14,732	15,398
% change	9.8	2.5	(15.2)	4.8	3.2	4.5

\* Fiscal 2001-2005 adjusted to reflect shift of one cent of the regular sales tax off budget to support the MBTA.